

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: Stephen M. Cordi, Deputy CFO
Office of Tax and Revenue

FROM: Robert G. Andary, Executive Director
Office of Integrity and Oversight

DATE: February 27, 2009

SUBJECT: Review of Employee's Activity in ITS based on Dummy Account Alert
(IA:OTR:2904:M02)

This review was conducted pursuant to the Office of Integrity and Oversight's (OIO) Management Alert of January 5, 2009 (IA:OTR: 2904-M01), on "OTR's Use of Dummy Accounts." As stated in that alert, an Office of Tax and Revenue (OTR) employee used dummy accounts in the Integrated Tax System (ITS) to transfer credits from dummy accounts to taxpayer accounts. Based on this misuse of dummy accounts, OIO indicated that we would further analyze actions taken by this employee to determine whether there were other instances where credits were moved improperly.

Background

The employee under review is a Senior Program Analyst within the Returns Processing Administration (RPA) Systems and Forms Division. In this role, he deals directly with taxpayers on correction of ACH payment issues, eTSC, e-File, and he also works with lockbox data. In this position, the employee had access to data files and the ability to make changes to taxpayer accounts. As a result of the findings noted in the January 5, 2009 memorandum, the employee's ITS user rights have been modified to "read only access."

Methodology

To determine the level of transfer activity of this employee, OIO used the data warehouse to run a report of the employee's transfer activity in the Integrated Tax System from the inception of his account to FY 2009. To obtain this data, Accenture contractor staff assisted us in writing a query that would specifically provide the transfer activity for the employee (Attachment 1). For the purpose of this review, a transfer is defined as the movement of a payment from one account period to another as well as the introduction of tax credits (i.e. withholding).

Table 2

| Adjustment Reason | Transactions | Percentage |
|--|---------------------|-------------------|
| eTSC Payment Error | 25 | 22.1% |
| eTSC Processing Error | 10 | 8.8 |
| Processing Error Correction | 55 | 48.7 |
| Processing Error Correction: Workaround | 14 | 12.4 |
| Keypunch error | 6 | 5.3 |
| Payment posting error | 3 | 2.7 |
| | 113 | |

Of the 113 transaction events reviewed, we noted adjustment errors in 27 instances or 24% of the events reviewed totaling \$719,513. Of this amount, \$426,580 or 18 events were corrected by the employee under review or other OTR employees, and the remaining \$292,933 or 9 transaction events required correction by OTR, due to the employee's error in the correction, or his apparent deliberate manipulation of the system to resolve a taxpayer issue. OIO will provide the items for your correction. (See Attachment 2)

In summarizing reasons for the adjustments (Table 2 above), we segregated "processing error corrections" from "workarounds" to highlight this issue. It appears that the employee had developed "workarounds" in ITS to resolve system limitations or issues over his years of working with ITS, such as moving an older converted remit from a taxpayer's 2002 Unincorporated franchise period to the taxpayer's sales tax account to resolve an ACH posting issue.

Workarounds represent a shortcoming in ITS where the system is unable to process an item as it should. When this is done it may correct the problem, but it also distorts the taxpayer's filing history.

Dummy Accounts

In the 113 transactions reviewed, we noted no other use of the dummy accounts. We scanned identification numbers (EIN/SSN) in the entire file and did not see any other use of known dummy accounts by the employee. The two transactions previously brought to your attention are included in the error amounts reported.

Recommendation:

We recommend OTR correct the items that require correction within 10 days of receipt of this letter.

4. Employee Performed Excessive Abatements

During our review of credit and transfer activity, we noted a large number of abatements performed by this employee. OIO ran a report of abatement activity in the data warehouse and noted the employee abated over **\$1.6 million** in penalties and interest.

We judgmentally selected 20 abatements greater than \$15,000, and noted that in most instances it was the employee using his *personal judgment* to determine whether the taxpayer should receive an abatement; he also included notes as justification for the abatement, such as:

- *"IN VIEW OF HONEST ERROR, AND OTHERWISE UNBLEMISHED RECORD, I ABATED P&I FOR APRIL S&U." and*
- *"CLIENT BOUGHT SPORTS CLUB AND WAS NOT TOLD OF PPT RESPONSIBILITY (IT'S UNUSUAL TO COLLECT TAX A YEAR IN ADVANCE) BY SELLER. SO I DISTRIBUTED TAX REQUIREMENTS BETWEEN THE BUYER AND SELLER, AND BUYER PAID PPT TAX. THEREFORE, I ABATED, GIVEN HONEST GOOD-FAITH EFFORT."*

In one instance cited as an error in Finding 1, a taxpayer's audit assessment was reduced by \$59,000. Notes on the taxpayer's account by a different employee stated the taxpayer's request for waiver of penalty was denied; however, the employee under our review abated the penalty and transferred the credit in the sales account to the personal property account ultimately eliminating the liability in two personal property account periods.

The OTR has a procedure in place that requires a taxpayer to file a specific request for a waiver with the OTR's Compliance Operations Division. This procedure was circumvented by the employee. Additionally, there did not appear to be managerial oversight of the abatement activity performed by the employee.

Recommendation:

In our judgment, the unauthorized actions of this employee to abate a taxpayer's account, resulting in the reduction of a liability, is an extremely serious matter requiring management's immediate attention.

As such, we strongly recommend OTR examine the whole abatement process and review all abatement activities of this employee, and reinstate the penalty and interest, where applicable. In addition, we recommend OTR regularly run an abatement report to identify questionable activity across the agency. (Attachment 3)